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C O N F I D E N T I A L SECTION 01 OF 03 LIMA 005090

SIPDIS

BUENOS AIRES PLEASE PASS TO IO A/S SILVERBERG

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TAGS: [PREL](#) [PGOV](#) [ETRD](#) [PE](#)

SUBJECT: SCENESETTER FOR A/S SILVERBERG'S VISIT TO LIMA,
DECEMBER 2-6

Classified By: Political Counselor Alexander Margulies. Reason: 1.4(d)

SUMMARY: Welcome to Peru

¶11. (U) On behalf of Embassy Lima I am pleased to extend a warm welcome to Peru. Your visit provides an excellent opportunity to lay the groundwork for close cooperation on the UN Security Council (which Peru will join in January for a two-year term) and on U.N. reform issues. We are arranging meetings with the Foreign Ministry's Multilateral Affairs Bureau, key Congressmen, leading opinion makers and influential journalists. Your arrival will coincide with end-game Free Trade Agreement negotiations in Washington, which is a top priority for the Toledo Government. Active campaigning has begun for the April 2006 general elections. The GOP is promoting Peru's accession to the Law of the Sea Convention, but this is being opposed by the major opposition party and has become a campaign issue. Concern has also been raised over the recruitment of Peruvians by a U.S. company to work as security guards in Iraq. You can expect that Peruvian interlocutors may raise these issues, as well as those dealing specifically with the UN. END SUMMARY.

UN COOPERATION

¶12. (U) Peru historically has placed a great deal of emphasis on its foreign relations, seeking to "punch above its weight" in international and regional fora. It points proudly to examples of its leadership role in international organizations, such as Javier Perez de Cuellar's service as UN SecGen. The Foreign Ministry remains wedded to many traditional Latin American foreign policy concepts (Third Worldism, North-South economic divide issues) and zealously guards its elite status within the GOP. Consequently, Peru in principle strongly promotes multilateralism, strengthened international institutions (particularly the UN) and expansion of international law (the International Criminal Court). In practice, however, the Toledo Administration has played an understanding and constructive role on issues of major importance to the U.S., such as combating terrorism, the military operations in Iraq and Afghanistan, and the Middle East peace process. President Alejandro Toledo is a firm proponent of human rights, and Peru took the lead in Latin America in supporting the UNCHR Cuba Resolutions through 2004, but acceded to pressure from Brazil and Argentina to abstain on that resolution in 2005.

¶13. (C) Foreign Minister Oscar Mauryta and our contacts in the Foreign Ministry's Multilateral Affairs Bureau have expressed their strong interest in cooperating closely with the U.S. on international security issues during Peru's 2006-2007 term on the UN Security Council. On UN Reform, Peru has been supportive in principle, but non-committal on details. On UNSC expansion, Peru tepidly backs Brazil's bid for permanent status publicly, but privately is content to leave this issue on the back-burner. We have an excellent working relationship with our counterparts in the Ministry, most of whom have served in Washington and/or New York.

The Political Scene

¶14. (U) President Toledo heads up a lame-duck administration heading into its final eight months in office. His popularity remains in the low-teens, but the GOP is firmly in the saddle as the opposition parties are cooperating in maintaining economic and political stability with an eye to inheriting a steady ship of State next July 28. Active campaigning for the April 2006 elections has begun and dominates the headlines: the race remains wide open as no candidate has even reached 30 percent support in the polls. Former President Alberto Fujimori's 11/16 arrest in neighboring Chile, and Peru's preparation of an extradition request, has further muddied an already complex political scene.

Free Trade Agreement Talks

15. (C) Your visit will coincide with what we hope are end-game negotiations on a U.S.-Peru Free Trade Agreement (FTA) in Washington. The FTA is a top priority for the Toledo Government, and Foreign Ministry officials in the past have suggested that Peru's cooperation in the UNSC would be enhanced should an FTA be concluded. You can expect inquiries and asides on this issue from Foreign Ministry officials, congressmen and journalists.

The Law of the Sea Convention

16. (U) The GOP, pushed by the Foreign Ministry, has been actively promoting Peruvian accession to the Law of the Sea Convention (LOS). In early November, Toledo promulgated legislation unilaterally fixing Peru's southern maritime baseline boundary and has argued that Peru's accession to the LOS, in combination with its newly set maritime baseline, will enable it to extend its maritime jurisdiction into waters currently claimed by Chile. This led to a diplomatic squabble with Santiago, which holds that the two countries' maritime boundary was fixed by agreements entered into in 1952 and 1954, while Peru insists that these agreements only dealt with fishing issues, not maritime boundaries. Former President Alan Garcia, the presidential candidate of the major opposition party APRA, has chosen to make this a campaign issue, opposing the LOS as a surrender of Peru's historical claim to a 200-mile territorial sea. Your interlocutors may raise this issue with you and inquire as to the USG's position on this issue: we have signed the LOS and submitted it for congressional ratification.

Peruvians in Iraq

17. (U) The recruitment of several hundred Peruvians by U.S. company Triple Canopy (on a State Department contract) to work as security guards in Iraq was a page-one issue over the last month and spurred some in the Foreign Ministry to propose revising the Convention Against the Recruitment, Use, Financing and Training of Mercenaries to regulate the activities of private security companies. While this matter has receded from the headlines, GOP and political contacts warn that it will resurface with a vengeance should a Peruvian be killed in Iraq. It is possible that this issue will be raised during your meetings and interviews.

The Economy

18. (U) Peru's economy is one of the most dynamic in Latin America. GDP grew 5.1 percent in 2004, reaching \$67 billion. Growth was driven by exports, construction, mining, investment, and domestic demand. Exports, propelled by high mineral prices, ATPDEA benefits and the completion of the Camisea gas project, surged above \$12 billion in 2004, up 39 percent in dollar terms from 2003. U.S. exports to Peru increased 27 percent during the same period, to \$1.8 billion. Peru's \$2.6 billion trade surplus drove the currency up 5.5 percent against the dollar over the year.

18. (U) The economy has steamed ahead in 2005, with a growth rate of 5.6 percent for the first half of the year. Exports are up another 20 percent since last year, and reserves have hit a record \$14.1 billion. Inflation is 2.5 percent, and the government is on track to meet its deficit target of one percent of GDP for 2005. Revenues are up 11 percent since last year.

19. (U) Peru's major trading partners are the U.S., China, EU, Chile and Japan. In 2004, 29 percent of exports went to the U.S. and 20 percent of imports came from the U.S. Key exports include gold, copper, fishmeal, textiles and apparel, petroleum, zinc, asparagus and coffee. Imports include machinery, vehicles, processed food, petroleum and steel. Registered foreign direct investment (FDI) is \$12.9 billion, with the U.S., Spain and Britain the leading investors. FDI is concentrated in mining, electricity, telecom and finance.

10. (U) Despite Peru's macroeconomic success, huge challenges remain. Peru must reduce poverty of 52 percent (under \$58/month) and extreme poverty of 24 percent (under \$32/month). Wealth and economic activity are overly concentrated in Lima and other large cities. Unemployment and underemployment levels total 56 percent nationwide, and over 60 percent of the economy is informal. Growth is just beginning to generate employment faster than new entrants come into the labor force. The government lacks revenues for adequate social investment. Boosting long-term growth and reducing poverty will require strengthening the judiciary,

reducing corruption and completing other reforms to improve
the investment climate.

POWERS